



Treasury Trends

Bringing currency to the Arizona Taxpayer
David A. Petersen, State Treasurer

October 2005

THE OFFICIAL NEWSLETTER FOR ARIZONA LGIP PARTICIPANTS

This month's
character trait:

Responsibility:

*The ability to make
moral or rational
decisions on one's own
and therefore, be
answerable for one's
own behavior.*

*New GASB 40
Requirements
Means More
Research and
Documentation.*

LGIP Performance

The Board of Investment was informed of the performance of the Local Government Investment Pool (LGIP), LGIP-Government, and LGIP-Core-Mix for the month to date and year to date period ending September 30, 2005 during its regular meeting on October 19, 2005.

Recent Pool performance is posted on the last page including a description of each Pool and a rolling twelve month performance table for the Pools offered by the Arizona State Treasurer's Office. Contacts and other information on the Pools can also be found on this condensed one page summary sheet for your convenience.

Ratings Information Available

Ken Fisher, Deputy State Treasurer of Investments

Like many of our participants, the Arizona State Treasurer's Office (ASTO) has been under pressure to complete our annual financial statements with the new GASB 40 presentation requirements. Luckily, our Investment Accounting Department has been able to use many of the tools that the ASTO uses in its day to day portfolio management function. In particular, completing the credit quality portion of GASB 40 using our subscription to both Moody's and Bloomberg.

The investment that the ASTO makes in securing the safety of principal in our funds has also been very useful in compliance, accounting and reporting issues beyond the GASB 40 nuances. For example, given a security's CUSIP, the ASTO can look at the ratings history for that issue, related securities, and any parent-subsidaries ratings that are also available. This can usually be done in a matter of minutes with minimal inquiry into our systems.

If you have not already tried, Moody's (www.moodys.com) and S&P (www.standardandpoors.com) both offer their basic ratings information available for free on their web sights. If, however, you find that you are still having difficulty getting the information you need, please feel free to call us at the ASTO and we will be more than happy to help you in any way we can. Our Portfolio Managers can make themselves available to help you get the information you need on not just an LGIP investment (remember, your presentation of the LGIPs differs from ours under GASB 40 reporting requirements), but others that you may need to report on.

The ASTO is committed to bringing every LGIP participant the best possible service we can offer. If you would like to find out more, please contact us at your convenience.

*The Economy
Faired Better than
Expected After the
Gulf Storms.*

The Calm After the Storms

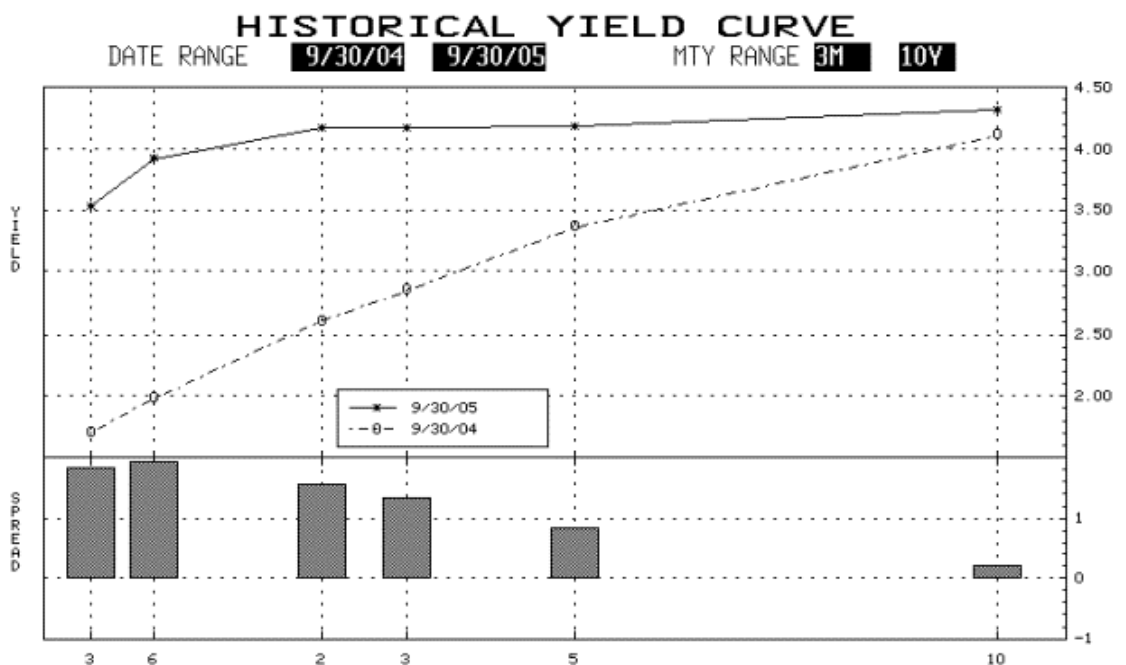
Minh Trang, Asst. Deputy State Treasurer of Investments

It's been about a month since hurricanes Katrina and Rita devastated the Gulf Coast, and the market environment seems to have calmed after the storms. Crude prices have stabilized to around \$60 a barrel after testing \$70 a barrel. Bond yields have also plateaued after a steep sell-off. The economy has weathered the storms quite well despite all the devastation Katrina and Rita caused.

For now, most market watchers are anticipating the next Federal Reserve action in early November. The expectation is for a .25% move, pushing the over night rate up to 4%. The focus again will be on the Fed's comments regarding inflation and economic growth. Recent remarks indicate that the monetary policy will remain "measured". The economy is expected to slow a bit next year, and inflation remains a tempered concern.

Yield Curve Perspective (Source: Bloomberg LP)

Change in the 3 Month to 10 Year US Treasury Curve for One Year.



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We're on the Web!
www.aztreasury.gov

**LGIP: local & state government working together
to safeguard Arizona taxpayers' money.**

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Arizona State Treasurer's Office

Local Government Investment Pools (LGIP)

Fact Sheet on the Pools

OVERVIEW

LGIP (\$3.2 Billion as of 09/30/05)

Money market type fund designed to maximize your cash management program's efficiencies by providing a safe and reliable source of liquidity from the fund's portfolio of government and investment-grade domestic securities. Maximum weighted average maturity (WAM) is 240 days.

LGIP-Government (\$1.3 Billion as of 09/30/05)

Similar in style to the LGIP, but invests solely in securities that are backed by the full faith and credit of the US Government. Maximum WAM is 180 days.

LGIP-Core Mix (\$60.7 Million as of 09/30/05)

This fund invests in a longer term horizon than the LGIP cash management fund and adds the potential of total return from feasible price appreciation within the fund's portfolio of government and investment-grade domestic securities. Redemptions and Purchases are limited to the first business day of the month. Duration target is Merrill 1-5 US Domestic Master Index (not to exceed .75 years of index).

LGIP-Core-Government

Similar in style to LGIP-Core Mix, but invests solely in securities that are backed by the full faith and credit of the US Government. Duration target is Merrill 1-5 US Treasuries Index (not to exceed .75 years of index).

RECENT PERFORMANCE

LGIP			LGIP-Gov.		LGIP-Core Mix		LGIP-Core Gov.	
Month	Yield	WAM	Yield	WAM	Yield	NAV	Yield	NAV
Sep '05	3.39	75	3.27	128	4.06	0.998		
Aug '05	3.22	79	3.22	130	3.65	1.000		
Jul '05	3.04	92	3.10	119	3.37	0.999		
Jun '05	2.90	84	2.72	152	3.55	1.001		
May '05	2.77	96	2.62	121	3.37	1.003		
Apr '05	2.63	99	2.37	104	2.84	1.000		
Mar '05	2.48	93	2.29	140	2.56	1.000		
Feb '05	2.47	100	1.92	125				
Jan '05	2.30	100	1.92	142				
Dec '04	2.21	146	1.80	79				
Nov '04	2.06	152	1.72	89				
Oct '04	1.90	152	1.57	102				

Yields net of fees

Initial Funding Mar-05

Currently Unfunded

ADVANTAGES

- Professionally managed by a team of educated, experienced former public investment officers and private sector portfolio managers and traders.
- Dedicated and separate Compliance, Accounting and Portfolio Management departments ensure our dedication to meeting the LGIPs' objectives.
- Bound by the Arizona Revised Statutes and the oversight of the Arizona Legislature.
- No contracts to negotiate. Accounts are opened with an executed governing body resolution.
- Pools are managed from the viewpoint of public entities for public entities.
- Multiple accounts within the Pools are available for your accounting needs.

IMPORTANT INFORMATION

Unless otherwise stated, investors are participating in a commingled investment pool in which they are conveyed a pro rata interest in the total value of all securities in that Pool. Investors share an apportioned amount of the Pool's income and expenses based on the average daily balances of participating accounts using the accrual basis of accounting. Investment products offered by the Arizona State Treasurer's Office are not backed, insured, or guaranteed by any bank, the FDIC, the State of Arizona, or any other Federal or State Government Agency. As with any investment, past history is not a guarantee of future performance and an investment may lose value.

Please refer to the most recent "Arizona State Treasury Investment Policy for Invested Monies" for further information and important disclosures in determining if an investment in one of the LGIPs is right for your organization. Contact us at 602-604-7800 or visit us at www.aztreasury.gov on the web.